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Central Intelligence Agency

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Washington, D.C. 20505

## DIRECTORATE OF INTELLIGENCE

15 November 1985

Japan-South Africa Economic Ties:  
Vital Despite Sanctions [redacted]

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Summary

As long as imports of rare metals--Japan's only vital interest in South Africa--are not disrupted, we believe Japan will continue to follow the US lead on economic sanctions despite bureaucratic misgivings in Tokyo. The Japanese Government, in our view, wants to avoid exacerbating trade tensions with Washington and creating the perception elsewhere that it supports apartheid. We believe that the measures announced in October will not significantly affect Japan's trade with South Africa and that the Japanese will tailor any future sanctions to avoid retaliation. Japanese dependence on South African rare metals is likely to persist, as is Pretoria's desire for closer trade links to Japan. [redacted]

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This memorandum was prepared by [redacted] Office of East Asian Analysis. Information available as of 15 November 1985 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Japan Branch, Northeast Asia Division, OEA, [redacted]

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### Bilateral Trade

Trade with South Africa accounts for only about 1 percent of Japan's total trade, but it is vital to Japanese industry. Japan depends on South Africa for 95 percent of its scarce metals, particularly rhodium, which is used in making catalytic converters for automobiles. Japanese auto manufacturers are switching to catalytic converters that do not use rhodium--partly out of concern about Pretoria's stability--but will nonetheless depend on South African rhodium at least for the next few years. [REDACTED]

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South Africa also has a large stake in its trade ties to Japan. Japan accounted for over 10 percent of South Africa's total trade in 1984, and is an important supplier of motor vehicles and industrial machinery. For its part, Pretoria has not been dissuaded from promoting trade with Japan by the recent imposition of Japanese sanctions. Pretoria granted Japan most-favored-nation status in October, and private South African economic analysts have encouraged their government to expand relations with Asian trading partners as a hedge against Western trade restrictions. Some South African business and government leaders believe Asian nations are less likely than Western countries to suspend economic relations with South Africa for political reasons. [REDACTED]

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Two-way trade between Japan and South Africa appears likely to drop to \$2.5-3 billion in 1985, down from the annual level of \$3-4 billion in 1980-84. The balance of trade was fairly even until this year, when it swung sharply in South Africa's favor. Although Japanese imports from South Africa increased moderately in the first half of 1985, exports were only about half their level in the first half of 1984, because of the rand's weakness relative to the yen, decreased demand for imports caused by the recession in South Africa, and, in our view, Japanese suppliers' doubts about the creditworthiness of South African importers. In addition, MITI raised export insurance rates on shipments to South Africa in September, a move that may depress exports further in the near term. [REDACTED]

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### Economic Sanctions: More Talk Than Action

Tokyo has pursued a damage-limiting strategy in its relations with South Africa. It has adopted sanctions to keep pace with US action and to minimize Japanese financial risks from possible future instability in the region but has sought to keep trade links open. For example, the measures announced by Tokyo in September were relatively mild. At that time, Japanese officials reaffirmed their 30-year ban on direct investment in South Africa and issued administrative guidance restricting terms of export financing. [REDACTED]

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[redacted]

Tokyo announced new economic sanctions in mid-October to ensure Japan did not lag the United States in applying pressure on Pretoria. Export of computers to the South African police or military was prohibited, and Tokyo said it would discourage the import of gold Kruegerrands. Tokyo also urged Japanese firms operating in South Africa to provide equal opportunity employment for all races and amended a ban on cultural exchanges to allow black South African students to study in Japan. [redacted]

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We believe the new sanctions will not significantly affect the volume of trade. The only measure that could have a serious effect on trade is the limited ban on the export of computers, but we believe even this step will have a very small impact because computers have accounted for only about 10 percent of Japan's exports to South Africa over the last five years and even under the ban may still be exported to private South African firms [redacted]

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Second Thoughts About Sanctions

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[redacted]

In our view, Tokyo's concern over the possibility of South African retaliation does not outweigh its recognition of the political costs of abandoning sanctions. Press reports suggest Japanese officials clearly do not want to be perceived as supporters of the South African Government. Moreover, Tokyo is also mindful that, if it takes a softer approach to sanctions than the United States, it could be exposed to the charge that Japan is benefiting from US restrictions on trade with South Africa. [redacted]

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Even so, we believe Tokyo will attempt to play both sides of the street to avoid South African retaliation. Tokyo's concern on this score and its wish to minimize trade restraints, in our view, probably mean that future sanctions will resemble US measures but will have less economic bite. The Japanese "limited ban" on computer exports is an example of the approach that is likely to be used. [redacted]

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Outlook

We believe economic ties between Japan and South Africa will continue to be important to both sides. The recent slump in Japanese exports to South Africa is, to us, entirely attributable to South Africa's economic troubles and the reluctance of Japanese exporters to extend credit, and we expect a turnaround if the economic situation in South Africa improves. Japan's imports from South Africa also should remain high. We believe Pretoria is unlikely to restrict sales to Japan in the nearterm given its recent attempts to promote trade with Japan. [REDACTED]

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If unrest in South Africa escalates, Japanese firms will probably boost imports to fatten their stockpiles of anthracite coal and rare metals. We believe private Japanese businesses have few misgivings about continuing to trade with South Africa, and there appears to be relatively little concern about the short-term security situation. [REDACTED]

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Present policies allow Japan to appear to support US foreign policy and avoid criticism from Pretoria's opponents at a cost acceptable to Tokyo. We would, therefore, expect the Japanese Government to continue to pursue its policy of following the United States lead but defining sanctions so narrowly that they do not appreciably affect bilateral trade. [REDACTED]

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Japan's Trade with South Africa, 1980-1985

(in millions of dollars; percentage of total in parentheses)

<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1980	\$1,800.3 (1.4%)	\$1,740.9 (1.2%)	\$59.4
1981	2,222.0 (1.5)	1,728.3 (1.2)	493.7
1982	1,654.7 (1.2)	1,840.2 (1.4)	-185.5
1983	1,738.0 (1.20)	1,587.3 (1.3)	150.7
1984	1,839.9 (1.1)	1,610.6 (1.2)	229.3
1984 (1st half)	989.3 (1.2)	792.4 (1.1)	196.9
1985 (1st half)	493.8 (0.6)	891.1 (1.4)	-397.3

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SUBJECT: Japan-South Africa Economic Ties: Vital Despite Sanctions 

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